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SIPDIS

DEPARTMENT FOR EUR/CE, EB/OMA, INR/EC  
TREASURY FOR ERIC MEYER, JEFF BAKER, LARRY NORTON

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SUBJECT: HUNGARY ON EFFECTS OF THE FINANCIAL CRISIS IN  
CENTRAL AND EASTERN EUROPE

REF: STATE 23758

Classified By: ACTING POL/ECON COUNSELOR JON MARTINSON FOR REASONS 1.4  
(b) and (d).

¶1. (C) On March 17, Embassy met with Finance Ministry Director General for International Relations Zsuzsanna Varga and with Senior Advisor to the Prime Minister Dr. Jozsef Szuper on March 20 to deliver reftel demarche. The Ambassador is scheduled to meet with Minister for National Development Economy Gordon Bajnai on March 23 and with Minister of Finance Janos Veres on March 31, which will be reported septel.

¶2. (C) Both the Finance Ministry and Prime Minister's Office largely concur with U.S. views regarding vulnerabilities in Central and Eastern Europe and the need for European governments to exercise leadership and encourage the EU to pro-actively address the crisis. Hungary has been particularly active in pursuing initiatives in support of the region - for example, its recent unsuccessful proposal for a euro 180 billion assistance proposal for Central and Eastern Europe - the so-called European Stabilization and Integration Program (ESIP). Hungary has also proposed that the European Central Bank (ECB) begin accepting non-eurozone currencies as collateral for loans, and has advocated for a reexamination of ERM-II requirements to possibly speed eurozone entry for Hungary and other eurozone aspirants.

¶3. (C) Noting that Hungary's ESIP proposal was not widely supported by other Member States, Szuper told the DCM that prior to putting forth the plan the GOH had consulted with a number of EU Members, but received only "mixed views," particularly from countries concerned that association with an assistance package could negatively impact investor sentiment in their countries. The Prime Minister nevertheless decided to move forward with the proposal. Szuper told the DCM that Hungary's ESIP initiative was developed within the Prime Minister's office, with the assistance of outside advisors, including international consultancy McKinsey and Company.

¶4. (C) Despite the tepid reaction from EU Member States, Szuper believes that the Prime Minister will continue to push for the ESIP within the EU, noting that "if the situation in Europe worsens significantly, we may yet see elements of this proposal adopted by the EU." DG Varga noted that although Hungary understands German objections to the proposal that the situation in each country is unique and that a "one size fits all" approach is not necessarily the most effective way to move forward, there are common characteristics shared by many Central and Eastern European economies - namely, the large market share and heavy exposure of Western European banks in the banking systems of these countries. The GOH believes an assistance plan could be formulated based on these common characteristics.

¶5. (C) Szuper was pleased to learn of U.S. support for urging the EU to be more proactive in addressing the crisis, and

proposed a follow-on meeting to discuss possible areas of cooperation in this regard. Director General Varga also expressed support for U.S. G-20 initiatives like increasing emergency IMF resources and finding ways to help the World Bank and other Multilateral Development Banks leverage existing resources, but noted that as a smaller European economy, Hungary's involvement in the G-20 process is limited to its membership in the EU.

¶6. (C) Comment. Although clearly a leading proponent of greater EU engagement on the plight of vulnerable economies in Central and Eastern Europe, the perception that Hungary is among the more vulnerable economies in the region, together with Hungary's failure to build sufficient support for its assistance package proposal prior to submitting it, limits Hungary's ability to exert influence on this issue. With the Prime Minister's surprise announcement of his offer to resign, it is even more unlikely Hungary will be in a position to influence EU decisions.

Foley